MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

PERFORMANCE AUDIT
OF THE

CARO CENTER

BUREAU OF HOSPITALS, CENTERS, AND FORENSIC
MENTAL HEALTH SERVICES
DEPARTMENT OF COMMUNITY HEALTH

November 2006

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

391-0900-05

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:
http://audgen.michigan.gov

Michigan

Office of the Auditor General

REPORT SUMMARY

Performance Audit

Report Number:
391-0900-05

Caro Center

Bureau of Hospitals, Centers, and Forensic Mental Health Services

Department of Community Health

Released:
November 2006

The Caro Center is an inpatient psychiatric hospital that provides treatment for adults with mental illness. The mission of the Center is to provide the highest quality mental health services guaranteed by the Mental Health Code in a safe and supportive environment that maximizes individual growth and a successful transition to the community. The Center provides services for mentally ill patients from 45 counties. As of September 30, 2005, the Center had 172 patients.

Audit Objective:
To assess the effectiveness of the Center's efforts to deliver selected patient care services.

Audit Conclusion:
We concluded that the Center was effective in its efforts to deliver selected patient care services.

Material Condition:
The Center needs to perform ongoing reviews of its patient monitoring and security procedures to ensure the safety of patients, staff, and other individuals (Finding 1).

Reportable Condition:
Our audit also disclosed a reportable condition related to criminal history background checks (Finding 2).

Noteworthy Accomplishments:
The Center uses the Psychosocial Rehabilitation Program (PSR) to assist in the treatment of persons with severe or persistent mental illness. Patients are assigned to PSR programming based on clinical and functional needs as assessed by the patient and his/her treatment team. The Joint Commission on Accreditation of Healthcare Organizations recognized that PSR provides a model for positive patient outcomes.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

Audit Objective:
To assess the Center's efforts to safeguard and efficiently use selected resources.

Audit Conclusion:
We concluded that the Center's efforts were not effective in safeguarding and efficiently using selected resources.

Material Conditions:
The Center had not established effective controls over its commodity inventories (Finding 3).

The Center had not established effective controls over its medications (Finding 4).

The Center did not effectively complete its biennial internal control assessment. Also, the Center did not complete all planned control activities and monitoring activities before submitting its biennial internal control assessment to the Department of Community Health (DCH). (Finding 5)

Reportable Conditions:
Our audit also disclosed reportable conditions related to contract management, preventive maintenance, procurement cards, disposal of equipment and inventories, medication refunds and rebates, work order monitoring, and patients' personal property (Findings 6 through 12).

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

Audit Objective:
To assess the effectiveness of the Center's efforts to investigate and resolve complaints about its operations.

Audit Conclusion:
We concluded that the Center's efforts to investigate and resolve complaints about its operations were moderately effective.

Reportable Condition:
Our audit disclosed a reportable condition related to complaints (Finding 13).

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

Agency Response:
Our audit report includes 13 findings and 18 corresponding recommendations. DCH's preliminary response indicated that DCH and the Center generally agreed with 17 recommendations and disagreed with 1 recommendation.

~ ~ ~ ~ ~ ~ ~ ~ ~ ~

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov

Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

November 3, 2006

Ms. Janet Olszewski, Director
Department of Community Health
Capitol View Building
Lansing, Michigan

Dear Ms. Olszewski:

This is our report on the performance audit of the Caro Center, Bureau of Hospitals, Centers, and Forensic Mental Health Services, Department of Community Health.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; seven exhibits, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during the audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

This Page Left Intentionally Blank

TABLE OF CONTENTS

CARO CENTER
BUREAU OF HOSPITALS, CENTERS,
AND FORENSIC MENTAL HEALTH SERVICES
DEPARTMENT OF COMMUNITY HEALTH

	Page
INTRODUCTION	
Report Summary	1
Report Letter	3
Description of Agency	7
Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up	8
COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES	
Efforts to Deliver Selected Patient Care Services	12
1. Critical Incidents	13
2. Criminal History Background Checks	14
Efforts to Safeguard and Efficiently Use Selected Resources	16
3. Controls Over Commodity Inventories	16
4. Controls Over Medications	19
5. Biennial Internal Control Assessment	21
6. Contract Management	23
7. Preventive Maintenance	24
8. Procurement Cards	26
9. Disposal of Equipment and Inventories	28
10. Medication Refunds and Rebates	30
11. Work Order Monitoring	31

12. Patients' Personal Property 34
Efforts to Investigate and Resolve Complaints 36
13. Complaints 37

SUPPLEMENTAL INFORMATION

Exhibit 1 - Map of Service Area 41
Exhibit 2 - Patient Admissions, Discharges, and Average Daily Census Data 42
Exhibit 3 - Expenditures and Average Cost Per Patient 43
Exhibit 4 - Patient Census Breakdown 44
Exhibit 5 - Photographs Showing an Open Residential Unit 45
Exhibit 6 - Photographs Showing the Interior of Closed Building 18 47
Exhibit 7 - Photograph Showing the Inventory Located in Closed Building 18 49

GLOSSARY

Glossary of Acronyms and Terms 51

Description of Agency

The Caro Center is an inpatient psychiatric hospital, operated under the jurisdiction of the Department of Community Health, that provides treatment for adults with mental illness*.

The Center, located in Tuscola County, originated as the Michigan Farm Colony for Epileptics in 1914 and has since provided services for the Department of Community Health. In 1968, the Center was designated as a facility for individuals with developmental disabilities* serving just four counties at that time. In 1975, the function of the Center was broadened to include psychiatric services. In 1997, the Center became a facility exclusively serving mentally ill patients.

The mission* of the Center is to provide the highest quality mental health services guaranteed by the Mental Health Code in a safe and supportive environment that maximizes individual growth and a successful transition to the community.

The Center provides services for mentally ill patients from all 15 Upper Peninsula counties and 30 Lower Peninsula counties (see Exhibit 1). As of September 30, 2005, the Center had the capacity to treat 240 patients. Over the last 10 fiscal years, the Center had an average daily census of 201 patients (see Exhibit 2). The Center's campus consists of 36 buildings, of which 4 are open residential units and 13 are closed. Several of the closed buildings are in disrepair (see Exhibit 6).

The Center is accredited by the Joint Commission on the Accreditation of Healthcare Organizations and is certified as a provider of inpatient psychiatric hospital services in the Medicare* program.

For fiscal year 2004-05, the Center had operating expenditures of $37.4 million, of which 87.3% were personnel costs (see Exhibit 3). As of September 30, 2005, the Center had 411 employees and 172 patients.

* *See glossary at end of report for definition.*

Audit Objectives

Our performance audit* of the Caro Center, Bureau of Hospitals, Centers, and Forensic Mental Health Services, Department of Community Health (DCH), had the following objectives:

1. To assess the effectiveness* of the Center's efforts to deliver selected patient care services.

2. To assess the Center's efforts to safeguard and efficiently* use selected resources.

3. To assess the effectiveness of the Center's efforts to investigate and resolve complaints about its operations.

Audit Scope

Our audit scope was to examine program and other records related to selected operational activities at the Caro Center. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit was not directed toward examining clinical decisions made by Center staff concerning patient treatment identified within a patient's individual plan of service or expressing an opinion on those clinical decisions and, accordingly, we express no opinion on those clinical decisions. Also, we obtained information compiled by the Center (see Exhibits 1 through 4) that relates to our audit objectives. Our audit was not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

* *See glossary at end of report for definition.*

Audit Methodology

Our audit procedures, conducted from June through November 2005, included examination of Center records and activities primarily for the period October 1, 2003 through October 31, 2005.

We conducted a preliminary review of the Center's operations. This review included interviewing Center personnel, reviewing applicable policies and procedures and the Mental Health Code, analyzing available data and statistics, obtaining an understanding of the Center's management control*, and conducting limited testing of transactions. Also, we analyzed the composition of the population (see Exhibit 4), toured the Center's buildings, and reviewed the patients' living conditions (see Exhibit 5).

To accomplish our first objective, we reviewed DCH and Center policies and procedures and met with Center staff to gain an understanding of the admission process and person-centered planning*. We also reviewed recent accreditation evaluations and examined patient files for compliance with the Mental Health Code and DCH and Center policies. In addition, we analyzed training provided to staff with direct patient contact, reviewed site fire safety procedures, and evaluated security staff scheduling. Further, we reviewed the Center's records of critical incidents that occurred during the audit period. We also reviewed criminal background histories of Center staff and the drug testing process used by the Center.

To accomplish our second objective, we interviewed Center staff and reviewed various DCH and Center policies and procedures. We obtained an overall understanding of and tested controls related to inventory procedures, contract management, preventive maintenance and work orders, personal service contracts, procurement card* purchases, vehicle maintenance, and pharmacy practices. We reviewed equipment, fuel, supplies and materials, and pharmacy inventories. We also reviewed inventories in closed buildings and items transferred from the closed Northville Psychiatric Hospital. In addition, we evaluated hiring and promotion practices for compliance with Department of Civil Service rules and regulations. Further, we analyzed the Center's procedures for handling discharged patients' funds, inventories, and valuables.

* *See glossary at end of report for definition.*

To accomplish our third objective, we interviewed Center staff and reviewed applicable policies and procedures. We obtained an overall understanding of and tested controls over the Center's complaint process. We assessed the appropriateness of the Center's complaint investigations, responses, and changes implemented as a result of concerns or complaints related to its operations.

Agency Responses and Prior Audit Follow-Up

Our audit report includes 13 findings and 18 corresponding recommendations. DCH's preliminary response indicated that DCH and the Center generally agreed with 17 recommendations and disagreed with 1 recommendation.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DCH to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

We released our prior performance audit of the Caro Regional Mental Health Center, Department of Mental Health (#3930092), in July 1992. Within the scope of this audit, we followed up 11 of the 39 prior audit recommendations. The Center complied with 8 and partially complied with 2 of the prior audit recommendations. We repeated 1 of the prior audit recommendations in this report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFORTS TO DELIVER SELECTED PATIENT CARE SERVICES

COMMENT

Background: Section 330.1708 of the *Michigan Compiled Laws* (part of the Mental Health Code) requires that patients receive mental health services, suited to their condition, in the least restrictive setting that is appropriate and available.

The mission of the Caro Center is to provide the highest quality services guaranteed by the Mental Health Code in a safe and supportive environment that maximizes individual growth and a successful transition to the community. For both calendar years 2004 and 2005, the Center had a goal directed toward improving safety.

The Center provides a wide variety of continuous care services to its patients, including therapeutic services, clinical support, educational activities, and discharge planning. Patient assessments are used at the time of admission to determine which care services would benefit the patients the most.

Audit Objective: To assess the effectiveness of the Center's efforts to deliver selected patient care services.

Conclusion: We concluded that the Center was effective in its efforts to deliver selected patient care services. However, our audit disclosed a material condition* related to two critical incidents involving Center patients. The Center needs to perform ongoing reviews of its patient monitoring and security procedures to help ensure the safety of patients, staff, and other individuals (Finding 1).

Our audit also disclosed a reportable condition* related to criminal history background checks (Finding 2).

Noteworthy Accomplishments: The Center uses the Psychosocial Rehabilitation Program (PSR) to assist in the treatment of persons with severe or persistent mental illness. Patients are assigned to PSR programming based on clinical and functional needs as assessed by the patient and his/her treatment team. PSR treatment is

* *See glossary at end of report for definition.*

provided in a group setting and consists of psychiatric, medical, psychological, and activity therapy that is programmed in 16-week cycles. These therapeutic groups are evaluated and modified prior to the end of the cycle based on current patient population needs and a patient satisfaction survey. The Joint Commission on Accreditation of Healthcare Organizations recognized that PSR provides a model for positive patient outcomes.

FINDING

1. Critical Incidents

   The Center needs to perform ongoing reviews of its patient monitoring and security procedures to help ensure the safety of patients, staff, and other individuals. Ongoing reviews would also help ensure that procedures are current and are being followed by staff.

   The Center operates under policy directives and operating procedures established by the Department of Community Health (DCH) and also under requirements specified in the Mental Health Code. These policies, procedures, and other requirements were designed to have a positive impact on the services provided to the Center's patients; to ensure that services are provided to patients in the least restrictive environment; and to provide for the safety and security of the Center's patients, staff, and other individuals. However, compliance with the policies, procedures, and other requirements may not entirely eliminate safety and security risks. As a result, the Center and DCH need to continually monitor and evaluate patient-related activities to help ensure the safety and security of the Center's patients, staff, and other individuals.

   During our audit period, two critical incidents occurred that involved patients. In May 2004, a female patient drowned while taking a bath. Center records indicated that staff periodically checked on the patient while she was bathing, but they were not with her the entire time. Center standards require that staff never leave patients unattended while bathing. In June 2004, a male patient walked away from the Center and later attacked and injured four individuals with a hammer before the Michigan Department of State Police located and arrested him.

   As a result of these critical incidents, the Center made several improvements to its patient monitoring procedures and to its security. These improvements include increasing the monitoring of patient movement, redefining patient ground access

parameters, adding 18 outdoor lights to enhance street lighting, installing cameras to improve visual monitoring of the Center's grounds, upgrading two-way communication radios, and hiring two additional security guards. In addition, the Center held a series of discussions with the community to discuss the security measures that the Center was pursuing.

RECOMMENDATION

We recommend that the Center perform ongoing reviews of its patient monitoring and security procedures to help ensure the safety of patients, staff, and other individuals.

AGENCY PRELIMINARY RESPONSE

The Center certainly acknowledges that two critical and unfortunate incidents involving patients occurred during the audit period, but it does not agree that the incidents were related to the Center's failure to perform ongoing reviews of its patient monitoring and security procedures as the finding suggests.

The Center informed us that its practice is to constantly review its patient monitoring and security procedures to ensure that services are provided in a safe and secure environment, for both patients and staff. However, the Center added that these reviews cannot be expected to anticipate and result in procedures that would prevent every conceivable type of adverse incident that may occur. The Center also informed us that, as acknowledged in the report, it made several improvements to its patient monitoring procedures and to its security as a result of these critical incidents. Further, the Center informed us that it will continue its current practice of performing ongoing reviews of its patient monitoring and security procedures to help ensure the safety of patients, staff, and other individuals.

FINDING

2. Criminal History Background Checks

The Center did not periodically update criminal history background checks of employees who had direct contact with patients. Also, the Center did not ensure that criminal history background checks were completed on contract providers who had direct patient contact.

Section 330.1708 of the *Michigan Compiled Laws* requires that mental health services be provided in a safe, sanitary, and humane treatment environment. By periodically updating criminal history background checks of its employees and requiring contracted providers to do the same, the Center could better ensure that unsuitable individuals are not allowed direct contact with its patients and that patients are receiving services in a safe environment.

During our review, we noted that the Center conducted criminal history background checks on individuals prior to employment. However, the Center did not periodically complete postemployment criminal history background checks of employees. During fiscal year 2004-05, the Center had 367 employees with direct patient contact.

Also, the Center did not complete criminal history background checks or ensure that checks were completed on contract providers with direct patient contact prior to using their services. During fiscal year 2004-05, the Center used personal care contracts to provide dental care, nursing, physical therapy, beautician, and psychiatric services to its patients.

RECOMMENDATIONS

We recommend that the Center periodically update criminal history background checks of employees who have direct contact with patients.

We also recommend that the Center ensure that criminal history background checks are completed on contract providers who have direct patient contact.

AGENCY PRELIMINARY RESPONSE

The Center agreed that it did not periodically update criminal history background checks of employees or complete criminal history background checks on contract providers. However, the Center informed us that criminal background checks were completed on all prospective employees and that the Center was in compliance with all statutory requirements regarding this issue during the period covered by the audit. The Center added that employees are also required to self-report any criminal convictions pursuant to the DCH published Disciplinary Guidelines and that it has implemented a process to require criminal history background checks on all new employees and contracted providers who have direct patient contact, as required through recently enacted legislation (Act 27, P.A. 2006). The Center

further informed us that, in conjunction with DCH, it will develop a standard policy to address criminal history background checks that comply with statutory, regulatory, and/or official DCH policy.

EFFORTS TO SAFEGUARD AND EFFICIENTLY USE SELECTED RESOURCES

COMMENT

Audit Objective: To assess the Center's efforts to safeguard and efficiently use selected resources.

Conclusion: We concluded that the Center's efforts were not effective in safeguarding and efficiently using selected resources. Our audit disclosed three material conditions. The Center had not established effective controls over its commodity inventories (Finding 3). Also, the Center had not established effective controls over its medications (Finding 4). In addition, the Center did not effectively complete its biennial internal control assessment. Also, the Center did not complete all planned control activities* and monitoring activities* before submitting its biennial internal control assessment to DCH (Finding 5).

Our audit also disclosed reportable conditions related to contract management, preventive maintenance, procurement cards, disposal of equipment and inventories, medication refunds and rebates, work order monitoring, and patients' personal property (Findings 6 through 12).

FINDING

3. Controls Over Commodity Inventories

   The Center had not established effective controls over its commodity inventories. As a result, the Center had not recorded balances for all commodity inventories and thus could not account for all commodity inventories on hand or ensure that commodity inventories were properly controlled and safeguarded.

* *See glossary at end of report for definition.*

The Center operates a warehouse that stocks hundreds of commodities for use at the Center, including food, cleaning supplies, maintenance supplies and materials, patient clothing and toiletries, furniture, and various pieces of equipment. During fiscal year 2004-05, the Center expended $426,300 on food items and approximately $1.3 million on other commodities used at the Center.

Our review of the Center's controls over its various inventories disclosed:

a. The Center did not use an inventory system to track most food, supplies, materials, and equipment inventory levels. Also, the Center did not conduct annual inventories of food, supplies, materials, and equipment.

   Chapter 12 of the State of Michigan Financial Management Guide requires agencies (such as the Center) to establish and maintain a supplies and materials inventory control program. Chapter 12 also requires agencies to verify the accuracy of inventory systems by conducting an annual physical inventory of randomly selected portions of their inventories.

b. The Center had not developed written inventory policies and procedures. Written inventory policies and procedures help ensure that employees have detailed knowledge of their responsibilities related to inventory operations. Also, written inventory policies and procedures minimize the disruptive impact and training costs associated with employee turnover.

c. The Center did not complete food production work sheets to ensure that food items forwarded to kitchens were actually prepared. Also, Center staff did not sign requisition orders at the time of delivery to verify that food quantities received by kitchens equaled food quantities that the Center's warehouse forwarded. For example, during our review of food service operations for one of the Center's residential units, we observed Center staff signing several food requisition sheets for prior days' deliveries.

d. The Center's maintenance staff did not maintain accurate tool inventory listings. We inventoried the tools assigned to 3 maintenance staff at the Center and could not locate 15 (18.3%) of the 82 tools that the Center's records indicated had been assigned to the staff. Missing tools included a hammer, screwdrivers, and wrenches. In addition, we located 48 tools that the

Center had not listed and 10 additional tools that maintenance staff reported were their personal tools.

e. The Center did not document the distribution of items transferred from other State-operated facilities. In addition, the Center did not tag items transferred from other DCH facilities with a unique identification number.

According to the Center's records, it received 816 items from the Northville Psychiatric Hospital after that facility closed. We attempted to locate 21 of these items; however, because the Center did not create documentation identifying the movement of these items or tag items to assist with the positive identification, we were able to locate only 2 (9.5%) of the items.

f. The Center did not control supplies and materials used by maintenance staff. In completion of their duties, Center maintenance staff used various supplies and materials to complete necessary repairs. Maintenance staff had unsupervised access to a wide variety of supplies and materials for which the Center had not established an inventory tracking system. Also, the Center did not require maintenance staff to account for or report the amount of supplies and materials used in repairs. Therefore, the Center cannot ensure that some supplies and materials were used for repairs to State property.

Effective controls are necessary to help ensure that inventories are properly controlled and safeguarded and to ensure the efficient use of limited State resources.

RECOMMENDATION

We recommend that the Center establish effective controls over its commodity inventories.

AGENCY PRELIMINARY RESPONSE

The Center agreed with the finding and the corresponding recommendation. The Center informed us that an inventory system will be developed with annual random physical inventories of selected commodities, written inventory policies and procedures will be developed, food production work sheets will be completed providing assurance that food items forwarded to kitchens were actually prepared, requisition orders will be signed by staff at the time food is delivered, procedures

will be developed to document the distribution of items received from other facilities, and controls will be put in place to monitor supplies and materials used by maintenance staff. The Center added that the controls to be implemented will weigh the potential benefit to be gained against the cost of implementing the control.

FINDING

4. Controls Over Medications

The Center had not established effective controls over its medications. As a result, the Center could not verify the inventory levels of its noncontrolled substances, did not have adequate safeguards over its controlled substances, and could not ensure that its drug formulary* identified all medications used at the Center.

To accommodate patients' medication needs, the Center operates an on-site pharmacy that orders, receives, and stocks hundreds of different prescription and over-the-counter medications. During fiscal year 2004-05, the Center's medication purchases totaled approximately $2 million. Our review of the Center's controls over these medications disclosed:

a. The Center did not maintain an inventory control program for its noncontrolled substances even though these medications accounted for most of its annual medication expenses. Without such a program, the Center could not properly account for the noncontrolled substances it purchased. During fiscal year 2004-05, the Center expended $1.95 million on noncontrolled substances.

b. The Center did not maintain an appropriate separation of duties to ensure effective control over its controlled substances. The same individual who ordered and received controlled substances for the Center also maintained the perpetual inventory* records and physically inventoried the controlled substances. At a minimum, the Center should separate the ordering and receiving functions and have staff who are not involved with recordkeeping physically inventory the controlled substances. Our review did not disclose

* *See glossary at end of report for definition.*

any errors or variances in the Center's records. However, without a proper separation of duties, Center staff could misappropriate controlled substances and then alter the related inventory records.

c. The Center's drug formulary did not identify all medications used at the Center. The Center's pharmacy standards require the pharmacy department to maintain and keep current a drug formulary system that includes an approved list of drugs for use. Our review of 13 medications stocked by the Center disclosed that the Center did not list 5 (38.5%) of the medications within its drug formulary. Center staff informed us that the Center had not updated the drug formulary since June 2004.

RECOMMENDATION

We recommend that the Center establish effective controls over its medications, including maintaining an inventory control program for its noncontrolled substances, providing adequate safeguards over its controlled substances, and ensuring that its drug formulary identifies all medications used at the Center.

AGENCY PRELIMINARY RESPONSE

The Center agreed with the finding and corresponding recommendation. The Center stated that the finding essentially reiterated the results of a DCH internal audit that was conducted regarding pharmacy operations at all of the DCH hospitals and centers. The Center informed us that a work group has been established to review the issue and provide recommendations for implementing an effective inventory control program for all of the hospitals and centers and that it has also taken steps to ensure an appropriate separation of duties with respect to the controlled substances. The Center also informed us that in addition to the licensed pharmacist, a second person (a pharmacy technician) is now required to initial and sign the invoices of all medications received from the distributor; that the Medication Management Team has been directed to review and update the drug formulary; and that procedures will be developed to ensure that the drug formulary is kept current and up to date.

FINDING

5. Biennial Internal Control Assessment

The Center did not effectively complete its biennial internal control assessment. Also, the Center did not complete all planned control activities and monitoring activities before submitting its biennial internal control assessment to DCH. As a result, the Center could not reasonably ensure that its control activities and monitoring activities safeguarded the Center's assets, provided reliable data, promoted operating efficiencies, or encouraged adherence to prescribed managerial policies.

Section 18.1485 of the *Michigan Compiled Laws* requires the head of each principal department to provide a biennial report on the evaluation of the principal department's internal accounting and administrative control system. For the period reviewed, the report shall include a description of any material inadequacy or weakness discovered as of October 1 of the preceding year and the plans and a time schedule for correcting the internal accounting and administrative control system. The State Budget Director developed guidance, entitled *Evaluation of Internal Controls - A General Framework and System of Reporting*, for use by principal departments in performing and reporting upon evaluations of their internal control systems. To complete the departmental evaluation, DCH required individual assessable units (such as the Center) to assess their operations. DCH provided instructions to the assessable units on how to complete these assessments.

The Center completed its most recent biennial internal control assessment in February 2005. Within the assessment, the Center stated that its operations encompassed 16 significant operating functions. Examples of operating functions include securing patient property, maintaining the physical plant, and controlling medical supplies. An assessment of an operating function would be the review and evaluation of the control activities and monitoring activities relating to each specific function. Our review of the Center's assessment process disclosed:

a. The Center's assessment did not identify the specific control activities designed to mitigate risk for portions of 5 (31.3%) operating functions. For example, the control activities related to the medical supplies function did not identify control activities related to the separation of duties of pharmacy staff,

development of a perpetual inventory system for noncontrolled substances, or periodic audits of the drug formulary.

b. The Center's assessment did not determine if specific control activities adequately reduced the risks associated with the related operating functions. DCH instructions require the assessable units to state if the control activities are adequate to reduce risk. The Center did not complete this task for any of the 72 activities identified.

c. The Center's assessment activities did not identify material weaknesses in the internal controls of 2 (12.5%) of its significant operating functions that were included in its biennial internal control assessment. During the course of our audit, we identified material weaknesses in the Center's internal controls over inventories and medications. These material control weaknesses were not identified during the Center's biennial internal control assessment process.

d. The Center did not complete 12 (16.7%) of the 72 control activities or 16 (17.0%) of the 94 monitoring activities identified within the assessment.

RECOMMENDATIONS

We recommend that the Center effectively complete its biennial internal control assessment.

We also recommend that the Center complete all planned control activities and monitoring activities before submitting its biennial internal control assessment to DCH.

AGENCY PRELIMINARY RESPONSE

The Center agreed with the finding and both recommendations. The Center informed us that the assessment for the next reporting period will identify specific control activities, include a conclusion whether the control activities are adequate, and will include a plan of correction for any material weaknesses that may be identified. In addition, the Center informed us that it will take steps to ensure that the control activities and monitoring activities identified in the assessment are actually being performed.

FINDING

6. Contract Management

The Center did not ensure that contractors obtained required permits, signed working condition statements, or documented that they had appropriate insurance coverage prior to beginning work at the Center. As a result, the Center could not ensure that the work performed by these contractors was in accordance with construction laws, that the work was done in compliance with safety standards established by the Center, or that these contractors had appropriate liability insurance to protect the Center and the State from potentially costly and damaging claims.

The Center was responsible for managing various construction projects and inspection activities completed by contractors at the Center. These responsibilities included selecting the contractors, approving the projects' or inspections' costs, verifying that contractors obtained the proper permits, verifying insurance requirements, and monitoring work progress.

We reviewed the Center's records of 13 contractors that were involved with 35 construction projects or inspection activities totaling $255,351 during fiscal years 2003-04 and 2004-05. We noted:

a. The Center did not verify that 8 contractors who completed 24 construction projects obtained the required permits. In addition, Center staff could not identify which of those 24 projects required permits from governmental licensing agencies.

b. The Center could not provide documentation to support that all contractors signed the statement of working conditions for the Center prior to beginning on-site work. Center policy requires contractors and contractors' employees to sign this statement, which outlines the Center's safety rules for working on site. Of the 13 contractors, 11 worked on site at the Center. We noted that the Center did not have signed statements on file for 6 (54.5%) of the 11 contractors.

c. The Center did not ensure that contractors had appropriate insurance coverage prior to beginning work at the Center. The Department of Management and Budget (DMB) requires State agencies to assess the risks

related to each work project and then ensure that the contractor provides documentation of required insurance. For example:

(1) Contract or purchasing language for 19 (54.3%) of the 35 work projects did not contain insurance requirements.

(2) The Center did not have proof of insurance on file for 12 (92.3%) of 13 contractors reviewed.

Center staff stated that it had not been the Center's practice to confirm that contractors obtained required permits or to verify that contractors had appropriate insurance coverage prior to starting work on site.

RECOMMENDATION

We recommend that the Center ensure that contractors obtain required permits, sign working condition statements, and document that they have appropriate insurance coverage prior to beginning work at the Center.

AGENCY PRELIMINARY RESPONSE

The Center agreed with the finding and corresponding recommendation. The Center informed us that procedures have been implemented that will require contractors to provide copies of all of the required documents when purchase agreements are processed. In addition, the Center informed us that a form letter will be sent to all current vendors requiring that they provide the Center with copies of all of the required documents and a notation will be attached to each purchase as a reminder to ensure that vendors provide the Center with the required information.

FINDING

7. Preventive Maintenance

The Center did not conduct all of the preventive maintenance inspections required by its preventive maintenance plan. Also, the Center did not include all equipment and systems requiring routine maintenance in its preventive maintenance plan. As a result, the Center could not ensure that all equipment and systems were properly maintained, functioning correctly, or safe for usage.

The Center has established a preventive maintenance plan that includes schedules for inspecting the Center's equipment and conducting various inspections and tests of its mechanical, electrical, security, and plumbing systems. Each month, the Center provides the maintenance staff with a schedule of inspections due to be completed during the month to allow the staff to prioritize the inspections accordingly.

To determine if the Center completed required preventive maintenance inspections, we reviewed various preventive maintenance activities of the Center. Our review disclosed:

a. During the period January 1, 2004 through May 31, 2005, the Center did not complete 43 (45.3%) of 95 monthly and 37 (11.5%) of 321 weekly preventive maintenance inspections required at the Center's power plant.

b. During the period August 1, 2004 through July 31, 2005, the Center did not complete 15 (12.4%) of 121 preventive maintenance inspections related to 40 preventive maintenance tasks associated with equipment and systems that are located in other Center buildings.

c. The Center did not inspect respirators used by maintenance staff on a monthly basis. The Center's respiratory program procedures require monthly inspections for both atmosphere-supplying and emergency use respirators. We could not identify the date that the Center last inspected these respirators.

We also reviewed the preventive maintenance plan to determine if all equipment and systems requiring routine maintenance were included in the plan. We noted that the preventive maintenance plan did not include 3 active pumps (used to circulate steam for heating) in Cottage 27 and 2 active pumps in the administration building. Maintenance staff informed us that the Center should include these pumps in the preventive maintenance plan. In addition, the preventive maintenance plan had 19 items listed as inactive that maintenance staff were inspecting. Maintenance staff stated that the equipment listed was active and should be inspected.

The completion of all scheduled preventive maintenance inspections is necessary to reduce the risk of equipment or system failures. Also, these inspections may

help the Center identify potential safety and security hazards to patients, staff, and visitors.

RECOMMENDATIONS

We recommend that the Center conduct preventive maintenance inspections as required by its preventive maintenance plan.

We also recommend that the Center include all equipment and systems requiring routine maintenance in its preventive maintenance plan.

AGENCY PRELIMINARY RESPONSE

The Center agreed with the finding and both recommendations. The Center informed us that it has met with the individuals responsible for completing the monthly and weekly preventive maintenance inspections of the Center's power plant to stress the importance of completing all of the required inspections and that an internal monitoring system will be developed to track and monitor these inspections. The Center added that maintenance staff will be directed to perform a comprehensive review of all equipment to identify inactive equipment that does not need to be inspected or perhaps active equipment that has been improperly designated as inactive.

FINDING

8. Procurement Cards

The Center did not effectively monitor procurement card transactions to ensure that purchases were in compliance with applicable laws, regulations, and other requirements. Insufficient monitoring of procurement card transactions increases the risk that errors and irregularities could occur without the Center detecting and correcting them in a timely manner.

Authorized individuals may use procurement cards for the purchase of goods related to their job within designated spending limits. DMB, DCH, and the Center have issued policies and detailed procedures governing the use of procurement cards to help prevent and detect any misuse or abuse of the cards.

As of June 2005, the Center had 8 active procurement cards. For the period October 1, 2003 through June 20, 2005, the Center's purchasing card activity

totaled $278,880, with an average of 110 transactions per month. We reviewed 91 transactions totaling $15,550 for this period. For 55 (60.4%) of the transactions, Center staff failed to enforce one or more of the required controls. Our review disclosed:

a. The Center did not have itemized receipts for 14 (15.4%) transactions totaling $1,220. The Center's procurement card procedures require that cardholders retain itemized receipts to support purchases. Without supporting documentation, the Center could not ensure that these purchases were for legitimate business purposes.

b. Cardholders did not record 41 (45.1%) transactions on procurement card logs. The Center's procurement card procedures require cardholders to record purchases on these logs. Without this recording, the Center could not properly account for all purchases.

c. Cardholders did not reconcile 43 (47.3%) transactions to billing information. The Center's procurement card procedures require cardholders to reconcile billings with procurement card logs, invoices, and packing and charge slips. Reconciling procurement activities would help the Center ensure that vendors correctly billed and shipped purchases.

d. Supervisors did not perform detailed reviews of procurement card purchases made by staff. For 45 (49.5%) transactions, there was no indication that supervisors reviewed the procurement card purchases. The Center's procurement card procedures require the cardholder's supervisor to review billing information and authorize payment on a biweekly basis. Timely review of procurement card transactions could identify misuse of the cards.

e. Cardholders incorrectly used procurement cards for 15 (16.5%) transactions. These purchases included 12 transactions for the purchase of patient prescriptions and 1 transaction for the purchase of another item available through a Statewide contract. DMB and DCH procedures state that cardholders are prohibited from using procurement cards for these types of transactions.

f. The Center did not obtain receipts signed by the cardholder for 36 (39.6%) of the transactions totaling $4,317. As a result, the Center could not provide proof that assigned cardholders made these purchases. DMB procedures specify that the cardholder is responsible for the security of the procurement card. Use of the procurement card by employees other than the assigned cardholder increases the risk of unauthorized or inappropriate purchases.

Effective monitoring of procurement card transactions would assist the Center with ensuring that purchases are appropriate, within program guidelines, and are properly documented.

RECOMMENDATION

We recommend that the Center effectively monitor procurement card transactions to ensure that purchases are in compliance with applicable laws, regulations, and other requirements.

AGENCY PRELIMINARY RESPONSE

The Center agreed with the finding and corresponding recommendation. The Center informed us that a September 8, 2005 memorandum reminded all cardholders that all purchases are required to have itemized receipts. The Center also informed us that cardholders were instructed not to make purchases from vendors that will not provide itemized receipts. In addition, the Center informed us that it has taken steps to ensure that all transactions are recorded on the procurement card logs; transactions are being reconciled with the billing information; purchases receive the appropriate supervisory review; and purchases of unauthorized items, such as prescriptions, are eliminated.

FINDING

9. Disposal of Equipment and Inventories

The Center did not dispose of all surplus equipment and inventories in accordance with State procedures. As a result, the Center did not efficiently use State resources.

DMB Administrative Guide procedure 340.05 requires agencies to examine inventories of surplus, salvage, scrap, and worthless property and to report property that is no longer required by the agency to the State Surplus Property

Program. It also specifies that no property may be sold, donated, discarded, exchanged, or otherwise disposed of without written authorization from the State Surplus Property Program.

Our review disclosed:

a. The Center was holding equipment with a total acquisition cost of $155,661 that the Center reported was no longer usable. This included laundry equipment recorded at $126,630, dental x-ray room equipment recorded at $22,095, and an incinerator located in the central kitchen that was originally recorded at $6,936 that the Center reported was shut down by the United States Environmental Protection Agency for air pollution concerns.

b. One of the closed buildings at the Center contained large quantities of items, such as ceramic moldings, supplies, and equipment, that the Center was not using (see Exhibit 7). This building also contained 9 weaving looms and multiple boxes of yarn and thread for the looms in addition to approximately 120 chairs, park benches, picnic tables, and 52 other tables. We observed that many of these items have experienced irreparable damage.

In accordance with DMB procedures, the Center should declare this property surplus. The State Surplus Property Program can then authorize its disposal, its transfer to other State facilities, or its sale at an auction.

RECOMMENDATION

We recommend that the Center dispose of all surplus equipment and inventories in accordance with State procedures.

AGENCY PRELIMINARY RESPONSE

The Center generally agreed with the finding and corresponding recommendation. The Center informed us that while there may be some difference in opinion concerning the condition of some of the equipment and the extent of communications between the Center and the State Surplus Property Program, the Center recognizes that it needs to increase its efforts to dispose of the surplus property in its possession. The Center added that it is in the process of disposing of some of the property stored in Building 18 and, once this has been completed, will begin the process of identifying and disposing of property from other locations.

FINDING

10. Medication Refunds and Rebates

The Center did not appropriately account for medications that it returned for refund or reconcile refunds with supporting documentation. Also, the Center did not reconcile vendor rebates with pharmaceutical sales totals. As a result, the Center could not determine the amount of medication that it returned for refund, if it received refunds for all returned medication, or if rebate amounts were accurate.

The Center sorts expired, recalled, damaged, and unneeded medications for return by substance type (controlled and noncontrolled). The Center uses a vendor to coordinate the return of these medications to the Center's pharmaceutical suppliers. The vendor comes on site and inventories all medications identified for return. The vendor generates a manifest listing the quantity of each controlled and noncontrolled substance that it acknowledged receiving. The manifest contains an estimated refund amount for the returned medications. Also, the Center receives rebates from pharmaceutical suppliers for the purchase of specific medications based on the amount of sales for those items over a given time period.

We reviewed approximately $20,000 in refunds and $47,000 in rebates due to the Center during our audit period. Our review disclosed:

a. The Center did not create an inventory of the noncontrolled substances that the vendor returned for refund. Without this inventory, the Center could not assess the accuracy of the vendor's related manifest and ultimately could not determine if it was fully refunded for all returned noncontrolled substances.

b. The Center's accounting department did not compare the vendor's manifests of returned medications with the refunds that it received to ensure that it was fully refunded for all returned medications listed on the manifests.

   Our review of three refund manifests generated between June 2, 2004 and April 11, 2005 disclosed that the Center had received refunds for returned medications totaling approximately $11,000. However, based on manifest information, vendors still owed the Center approximately $9,000. Because the Center was unaware of this difference, it had not initiated any related collection efforts.

c. The Center's accounting department did not verify the accuracy of rebates received from pharmaceutical suppliers for the purchase of specific medications. The Center's accounting department did not realize it could use a program maintained by the Center's pharmacist to confirm sale totals for specific products to verify rebate amounts.

RECOMMENDATIONS

We recommend that the Center appropriately account for medications that it returns for refund and reconcile refunds with supporting documentation.

We also recommend that the Center reconcile vendor rebates with pharmaceutical sales totals.

AGENCY PRELIMINARY RESPONSE

The Center agreed with the finding and both recommendations. The Center informed us that an inventory of all noncontrolled substances returned for refund will be maintained and compared with the vendor's manifest and that any discrepancies will be investigated and accounted for. In addition, the Center informed us that it has also registered for a free software program offered on the vendor's Web site that can and will be used to estimate the expected amount of the credit and that any large discrepancies between the amount of the expected credit and the actual amount received will be promptly investigated. The Center added that it has followed up with the vendor relating to the three manifests reviewed during the audit and received an additional $1,984 in credits. Finally, the Center informed us that its accounting department will use the software program maintained by the Center's pharmacist to confirm sale totals and verify specific rebate amounts and that the program will be used to establish accounts receivable for expected refunds based on estimates, which will be used as a tool to check the status of refunds.

FINDING

11. Work Order Monitoring

The Center needs to improve its use and monitoring of work orders to ensure that repairs and other maintenance projects are properly completed on a timely basis.

Effective monitoring of the work order process would assist Center maintenance supervisory staff in prioritizing and scheduling needed repairs, disclosing problems that are preventing repairs from being completed, and providing maintenance staff with feedback on their performance.

The Center uses an electronic work order system to document requests for repairs. Building managers or their designees use the electronic work order system to submit requests for repairs. On a daily basis, maintenance supervisory staff review, prioritize, and assign work orders to maintenance staff for completion.

Center policy 03.07 requires the maintenance supervisor to periodically inspect a random sample of maintenance requests to ensure standards of timeliness and quality of work performed. Policy 3.07 also states that Center staff must enter an emergency request for service* into the electronic work order system.

We reviewed 149 work orders completed in June 2005, 54 pending work orders on the electronic work order system, and an emergency repair situation that Center staff brought to the auditors' attention. Our review disclosed:

a. Maintenance supervisory staff did not periodically inspect a sample of assigned work orders to ensure that the work orders were properly completed on a timely basis. We identified 22 (14.8%) work orders that took an average of nearly 77 days to complete from the date of assignment that should have received more immediate attention. These work orders included requests to unplug bathroom drains, adjust the room temperature in a patient housing unit, and repair an ice maker. In addition, our review disclosed that 21 (14.1%) of the 149 completed work orders took greater than 100 days to complete from the date of assignment and another 15 (10.1%) work orders took between 50 and 100 days to complete from the date of assignment. We noted that one work order involving the replacement of burned out lights took 719 days to complete and another work order for the repair of a toaster took 311 days to complete from the dates of assignment.

* *See glossary at end of report for definition.*

b. Information contained in the electronic work order system was not accurate. Of the 54 work orders identified as being outstanding as of September 12, 2005, 31 (57.4%) were already completed, 4 (7.4%) were duplicates of other work orders, and 4 (7.4%) did not require repairs. As a result, maintenance supervisory staff could not use the electronic work order system as an effective management tool.

c. The Center did not always record emergency repairs on the electronic work order system. Our review of an emergency repair situation that occurred in August 2005 disclosed that the Center did not document the requests for repairs in the electronic work order system. Maintenance staff stated that emergency repairs were not consistently recorded in the electronic work order system. Recording emergency repairs is necessary to ensure that all requested work is completed and that follow-up activity, if necessary, is documented and formally requested.

RECOMMENDATION

We recommend that the Center improve its use and monitoring of work orders to ensure that repairs and other maintenance projects are properly completed on a timely basis.

AGENCY PRELIMINARY RESPONSE

The Center agreed with the finding and corresponding recommendation. The Center informed us that an internal system will be developed and monitored by the Center's accountant to ensure that work orders entered into the system are accurate, completed on a priority basis, and include only requests for necessary repairs that can realistically be completed with existing budgetary and staffing resources. The Center added that nonessential repairs will be tracked and completed as resources become available and that procedures will be implemented to ensure that all work orders are entered in the system, including repairs completed on an emergency basis.

FINDING

12. Patients' Personal Property

The Center needs to improve its controls over patients' personal property. Also, the Center did not return some personal property, including money, to discharged patients.

Effective controls over patients' personal property and returning items at discharge would help the Center ensure that patients' personal property is properly safeguarded and would minimize the Center's liability for lost, damaged, or stolen personal property.

Section 330.1730(5) of the *Michigan Compiled Laws* (part of the Mental Health Code) requires that all money, including any earnings, in a bank account of a patient at a State facility be delivered to the patient upon his or her release from the facility. Section 330.1728(7) of the *Michigan Compiled Laws* and *Michigan Administrative Code* R 325.14306(8) require that any personal property in the possession of a facility at the time the patient to whom the property belongs is released be returned to the patient. Also, Center policy 02.56 specifies that the Center is to account for all personal property of a patient admitted or discharged from the hospital and requires that the Center attempt to contact the discharged patient if unclaimed personal effects remain in the possession of the Center after the patient's discharge.

During our review of patient accounts and inventories, we noted:

a. The Center did not record all purchases of patients' personal property on appropriate inventory forms. Our review of 25 personal property purchases made by Center staff with patients' funds disclosed that the Center did not record 15 (60.0%) of these purchases on the patients' personal property inventory forms.

b. Between October 10, 2003 and May 19, 2005, Center staff reported 28 situations involving differences between personal property physical inventories and recorded balances. The majority of these situations involved items recorded on patients' personal property physical inventory forms that the Center could not locate.

c. The Center did not adequately safeguard patients' personal property. During our tour of a residential unit, we observed water covering portions of the building's basement floor. The Center had stored patients' personal property in plastic bags on the floor of this building. Center staff reported that the water had damaged some of this property and that the Center was working on reimbursing those patients for the damaged items.

d. The Center could not account for all patients' personal property. We attempted to locate or account for 120 items listed on 10 patients' personal property inventory forms. Neither Center staff nor our staff could locate or account for 20 (16.7%) of the 120 items listed.

e. The Center held funds in bank accounts for 16 discharged patients totaling $3,213. The Center had maintained 2 (12.5%) of these discharged patients' bank accounts for more than two years. At the time of our review, the Center could not document that it attempted to contact 7 (43.8%) of the discharged patients.

f. The Center maintained contraband inventories (such as shoestrings, lighters, pocketknives, and fingernail clippers) for 15 discharged patients. The Center discharged these patients between June and September 2005. The Center prohibits items considered contraband from entering the Center to promote the safety of staff and patients. The Center collects the contraband at the time of admission; however, the Center is required to return the items when it discharges the patient. At the time of our review, the Center could not document it had attempted to contact any of the 15 discharged patients.

g. The Center held storage bags containing clothing, bedding, and other personal property of 6 discharged patients. In addition, we identified other personal property that neither Center staff nor our staff could associate with an active or discharged patient.

We noted similar conditions related to discharged patients in our prior audit. In response to the prior audit, which was issued in July 1992, the Center responded that procedures were implemented to help ensure that all personal effects are returned to patients upon discharge.

RECOMMENDATIONS

We recommend that the Center improve its controls over patients' personal property.

WE AGAIN RECOMMEND THAT THE CENTER RETURN ALL PERSONAL PROPERTY, INCLUDING MONEY, TO DISCHARGED PATIENTS.

AGENCY PRELIMINARY RESPONSE

The Center agreed with the finding and both recommendations. The Center informed us that it has developed a comprehensive policy to address these issues and that the new policies require all patient property to be recorded on inventory sheets at the time of delivery and the receipt must be acknowledged by both Center staff and the patient. The Center added that its accountant will perform random inventories of patient property and compare the results to the inventory sheets, that all patient property has been removed from the basement and stored in a secure room in the warehouse, and that guidelines have been developed for the accounting staff to follow when patients are discharged to ensure that property is returned. The Center also informed us that it has initiated and will continue its efforts to locate patients so that all funds and personal property in the Center's possession can be returned to patients who have been discharged.

EFFORTS TO INVESTIGATE AND RESOLVE COMPLAINTS

COMMENT

Background: The Center has received numerous complaints relating to its operations from patients and related parties, Center staff, and the community. The exact number of complaints received by the Center could not be determined because of weaknesses in the Center's controls and processes for tracking complaints (see Finding 13). The Center processed approximately 7,700 administrative report forms* (ARFs) from March 1, 2003 through June 30, 2005.

* *See glossary at end of report for definition.*

Audit Objective: To assess the effectiveness of the Center's efforts to investigate and resolve complaints about its operations.

Conclusion: We concluded that the Center's efforts to investigate and resolve complaints about its operations were moderately effective. Our audit disclosed a reportable condition relating to complaints (Finding 13).

FINDING

13. Complaints

The Center, in conjunction with DCH, had not established procedures to ensure that it properly recorded, prioritized, investigated, and responded to complaints that it received relating to Center operations. As a result, the Center could not ensure that all complaints were properly resolved on a timely basis.

Effective procedures that assist the Center in prioritizing, investigating, and responding to complaints would help the Center identify and immediately address complaints that present a higher risk to its operations, would assist with ensuring that investigations are completed on a timely basis, and would provide a format for giving responses to the complainant. Also, by developing criteria to forward complaints to other units within DCH, the Center would help ensure that all complaints are fully and impartially reviewed. In addition, by establishing a system to track the number of complaints received and investigated, the Center would help ensure that it addresses all complaints in a timely manner.

The Center receives complaints from various sources, including patients and related parties, Center staff, and the community. The Center generally uses the ARF to record and document the complaints that it receives. The Center's director reviews all ARFs and assigns staff to investigate and respond to the individual who submitted the ARF. Complaints involving patient recipient rights are forwarded to on-site DCH recipient rights investigators. The Center's director reviews other complaints received via e-mails, telephone calls, or letters and forwards them to staff for investigation.

Our review of the Center's processes for handling complaints disclosed:

a. The Center, in conjunction with DCH, had not developed procedures that provided guidance on prioritizing or investigating complaints and on providing

adequate responses to the complainant. Center policy 2.17 outlines the Center's standards and procedures for use of the ARF, but the policy does not provide any guidance or direction on how to prioritize or investigate complaints. We reviewed a sample of 36 complaints received by the Center during fiscal years 2003-04 and 2004-05. We noted that, generally, the Center conducted an investigation on a timely basis and communicated the results to the complainant. However, in total, we noted weaknesses in the Center's procedures pertaining to 9 (25.0%) of the complaints reviewed. Based on our review of the Center's records, we concluded that the Center should have expanded its investigation for 7 (19.4%) of the 36 complaints. For example, when investigating a complaint related to the maintenance of vehicles, Center staff did not contact vendors to verify statements in the complaint, question appropriate employees responsible for vehicle maintenance, or review vehicle travel logs for information. For 2 (5.6%) complaints, we noted that the Center did not investigate the complaint on a timely basis (these complaints were not investigated for 4 and 5 weeks after being received). In addition, for 2 (5.6%) complaints, the Center did not forward the results of the investigation to the complainant.

b. The Center, in conjunction with DCH, had not established criteria to determine when complaints received by the Center need to be forwarded to other units within DCH. For example, the Center repeatedly received complaints concerning the effectiveness of its management. These complaints included concerns related to personnel, security, contracting, and vehicle maintenance. The Center did not forward these complaints to other units within DCH for an impartial review.

c. The Center did not have a system in place to identify the number of complaints received and investigated. The Center used a local database to track the ARFs that Center staff had submitted for review. However, we noted that not all ARFs involve complaints and that the Center did not record all complaints on ARFs. For example, the Center's director maintained files for a substantial number of complaints that were outside the local database and were not completed on ARFs. Many of the files in the possession of the director contained multiple reports of what appeared to be the same complaint. As a result, an exact number of separate complaints contained in these files could not be established.

RECOMMENDATION

We recommend that the Center, in conjunction with DCH, establish procedures to ensure that it properly records, prioritizes, investigates, and responds to complaints that it receives relating to Center operations.

AGENCY PRELIMINARY RESPONSE

DCH and the Center agreed in principle with the recommendation but not necessarily with all of the particulars listed as examples in support of the finding. For instance, the Center does not agree with the example cited in part a. that the complaint concerning maintenance of the Center's vehicles should have been expanded. The Center informed us that it believed the complaint was satisfactorily investigated, it was found to be unsubstantiated, and the results were communicated to DCH central office management.

DCH and the Center also informed us that in response to the recommendation, DCH has established, developed, and implemented a general policy that provides guidance on a departmental level for handling various complaints; that a committee has been established consisting of a designee from each administration that meets quarterly, at a minimum, to track, monitor, and ensure that complaints are handled appropriately; and that the director of the Bureau of Resource Services has been designated as the committee chair.

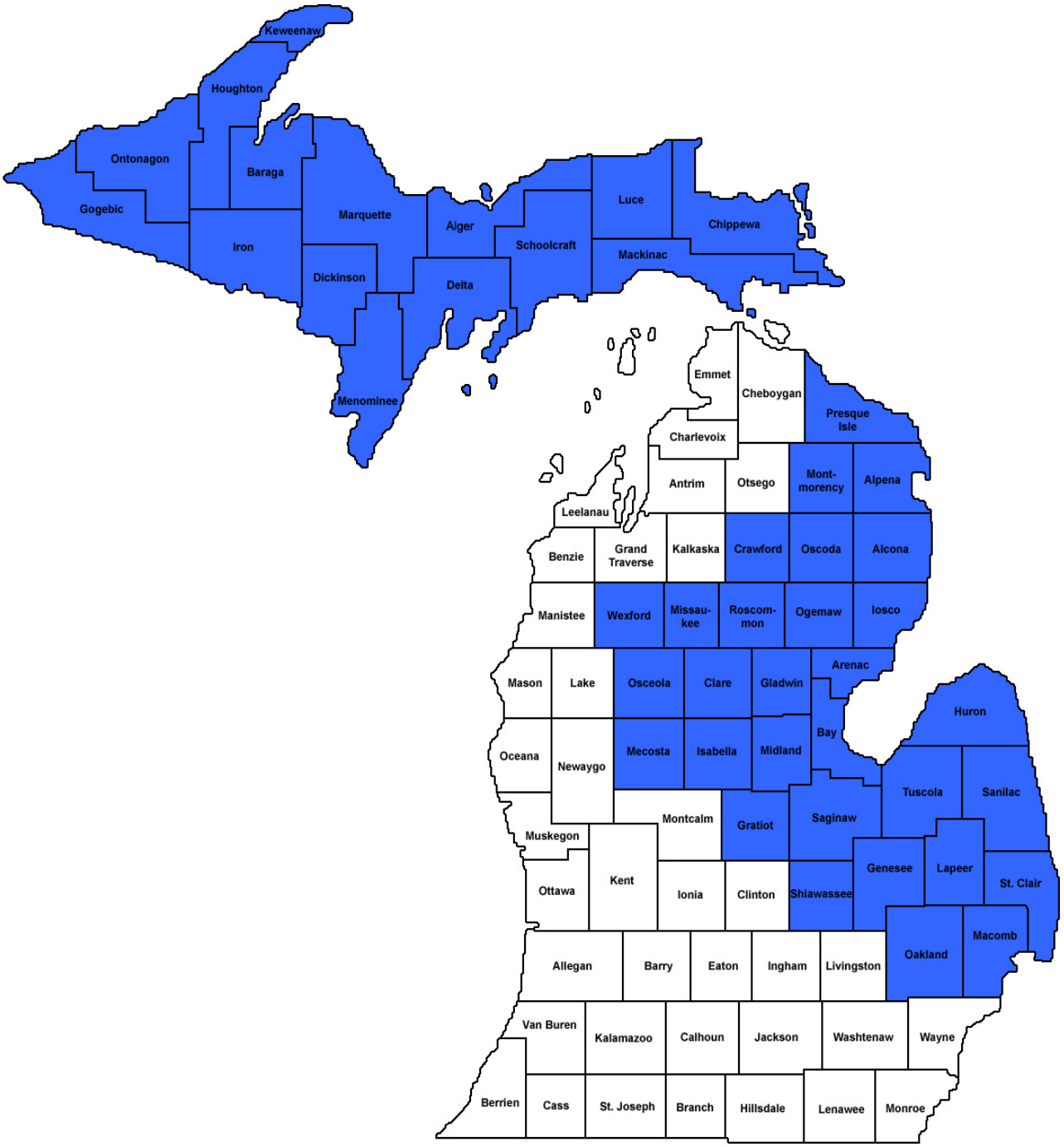
SUPPLEMENTAL INFORMATION

Exhibit 1

CARO CENTER

Map of Service Area

As of September 30, 2005



Shaded counties represent the service area for the Caro Center.

Source: Caro Center

CARO CENTER
Patient Admissions, Discharges, and Average Daily Census Data
For Fiscal Years 1995-96 through 2004-05

Fiscal Year	Admissions	Discharges	Average Daily Census
1995 - 1996	380	299	275
1996 - 1997	404	378	264
1997 - 1998 *	296	270	172
1998 - 1999	280	265	196
1999 - 2000	243	292	189
2000 - 2001	320	286	187
2001 - 2002	277	295	170
2002 - 2003	241	213	169
2003 - 2004	275	252	201
2004 - 2005	246	272	185
10-Year Average	296	282	201

The average daily census was calculated by dividing the number of patient days by 365. Because of the varying lengths of time that patients were treated at the Center, the average daily census may not increase or decrease at a rate consistent with the yearly difference between admissions and discharges.

* The Caro Center began exclusively serving mentally ill patients in 1997.

Source: Caro Center

CARO CENTER
Expenditures and Average Cost Per Patient
For Fiscal Years 2000-01 Through 2004-05

	Fiscal Years					Five-Year Average
	2000-01	2001-02	2002-03	2003-04	2004-05	
Average number of patients	187	170	169	201	185	182
Personnel costs	$ 31,464,716	$29,035,774	$28,914,500	$32,762,300	$32,626,924	$30,960,843
Average cost per patient	$ 168,261	$ 170,799	$ 171,092	$ 162,997	$ 176,362	$ 170,115
Food service costs	$ 439,531	$ 405,864	$ 397,100	$ 467,900	$ 426,293	$ 427,338
Average cost per patient	$ 2,350	$ 2,387	$ 2,350	$ 2,328	$ 2,304	$ 2,348
Medications and medical supplies costs	$ 1,506,720	$ 1,434,343	$ 1,646,200	$ 2,252,600	$ 2,006,188	$ 1,769,210
Average cost per patient	$ 8,057	$ 8,437	$ 9,741	$ 11,207	$ 10,844	$ 9,721
Fuel and utilities costs	$ 898,196	$ 581,614	$ 824,100	$ 798,600	$ 877,678	$ 796,038
Average cost per patient	$ 4,803	$ 3,421	$ 4,876	$ 3,973	$ 4,744	$ 4,374
Travel costs	$ 167,585	$ 143,693	$ 162,300	$ 157,300	$ 155,952	$ 157,366
Average cost per patient	$ 896	$ 845	$ 960	$ 783	$ 843	$ 865
Materials, supplies, and equipment costs	$ 1,394,096	$ 1,403,952	$ 1,378,100	$ 1,552,800	$ 1,282,925	$ 1,402,375
Average cost per patient	$ 7,455	$ 8,259	$ 8,154	$ 7,725	$ 6,935	$ 7,705
Total Agency Costs	$ 35,870,844	$33,005,240	$33,322,300	$37,991,500	$37,375,960	$35,513,169
Average Cost Per Patient	$ 191,823	$ 194,148	$ 197,173	$ 189,012	$ 202,032	$ 195,127

Source: Caro Center

UNAUDITED
Exhibit 4

CARO CENTER
Patient Census Breakdown
For August 10, 2005

	Number of Patients	Percentage of Total
Patient Location:		
Cottage 14	24	14.9%
Cottage 14 - Impulse Control Disorder	23	14.3%
Cottage 15	23	14.3%
Cottage 16	42	26.1%
Cottage 27 North	23	14.3%
Cottage 27 South	24	14.9%
Leave of absence - Impulse Control Disorder	1	0.6%
Out at community hospital	1	0.6%
Total	161	100%
Admission Dates:		
1989	1	0.6%
1991	1	0.6%
1992	1	0.6%
1997	5	3.1%
1998	2	1.2%
1999	1	0.6%
2000	2	1.2%
2001	8	5.0%
2002	15	9.3%
2003	23	14.3%
2004	26	16.2%
2005	76	47.2%
Total	161	100%
Gender:		
Male	106	65.8%
Female	55	34.2%
Total	161	100%
Legal Status:		
Court ordered	70	43.5%
Not guilty by reason of insanity	55	34.2%
Incompetent to stand trial	26	16.2%
Maintenance court order	6	3.7%
Voluntary admission	2	1.2%
Deferred hearing	2	1.2%
Total	161	100%

Source: Caro Center

CARO CENTER
Photographs Showing an Open Residential Unit

Photographs taken by Office of the Auditor General staff.

CARO CENTER
Photographs Showing an Open Residential Unit
(continued)

Photograph provided by the Caro Center.

CARO CENTER
Photographs Showing the Interior of Closed Building 18
As of October 10, 2005

Photograph taken by Office of the Auditor General staff.

Exhibit 6

CARO CENTER
Photographs Showing the Interior of Closed Building 18
As of October 10, 2005
(continued)

Photograph taken by Office of the Auditor General staff.

Exhibit 7

CARO CENTER
Photograph Showing the Inventory Located in Closed Building 18
As of October 10, 2005

This photograph shows ceramic moldings stored in the building.

Photograph taken by Office of the Auditor General staff.

GLOSSARY

administrative report form (ARF)	A mechanism to document, investigate, follow up, and recommend corrective action for unusual events or conditions that impact the Center's operations.
control activity	The execution of policies and procedures that were established to help ensure that actions to address risks are effectively carried out.
DCH	Department of Community Health.
developmental disability	A severe, chronic condition that is attributable to a mental or physical impairment or a combination of mental and physical impairments; manifests before the individual is 22 years old; and is likely to continue indefinitely. This condition results in substantial functional limitations of major life activities.
DMB	Department of Management and Budget.
drug formulary	A listing of therapeutic agents approved for use by the Center's Pharmacy and Therapeutics Committee.
effectiveness	Program success in achieving mission and goals.
efficiently	Achieving the most outputs and outcomes practical with the minimum amount of resources.
emergency request for service	An immediate health or safety risk to patients and/or staff.
management control	The plan of organization, methods, and procedures adopted by management to provide reasonable assurance that goals are met; resources are used in compliance with laws and regulations; valid and reliable data is obtained and reported; and resources are safeguarded against waste, loss, and misuse.

material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
Medicare	A federal government-operated healthcare program for the elderly and certain younger people with disabilities funded by federal money.
mental illness	A substantial disorder of thought or mood that significantly impairs an individual's judgment, behavior, capacity to recognize reality, or ability to cope with the ordinary demands of life.
mission	The agency's main purpose or the reason that the agency was established.
monitoring activity	The assessment of the design and operation of internal controls.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
perpetual inventory	Keeping book inventory continuously in agreement with stock on hand within a specified time period.
person-centered planning	A process for planning and supporting the individual receiving services that builds upon the individual's capacity to engage in activities that promote community life and honor the individual's preferences, choices, and abilities.
PSR	Psychosocial Rehabilitation Program.

procurement card	A credit card issued to State employees for purchasing commodities and services in accordance with State purchasing policies.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

This Page Left Intentionally Blank

This Page Left Intentionally Blank

This Page Left Intentionally Blank

This Page Left Intentionally Blank


STATE OF MICHIGAN
OFFICE of the AUDITOR GENERAL